

AI-01964 July 2025 CPI FTEC 210

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Explain why the indexes are high. Is no news good news and risk on?

Breakdown the JULY 2025 CPI data:

The S&P 500 (+1.1%) and Nasdaq Composite (+1.4%) reached fresh intraday and closing high levels following the release of the July CPI, which was largely in line with expectations and proved to be a catalyst for a definitively winning session.

The S&P 500 reached a peak level of 6,446.55 before closing just below at 6,445.76. The Nasdaq Composite followed a similar trend, peaking at 21,689.68 and closing at 21,681.90.

Here is an explanation of the recent market activity and key concepts you mentioned.

Why the Indexes Are High

The S&P 500 and Nasdaq Composite reached new record highs primarily due to the belief that the Federal Reserve will now have the necessary data to cut interest rates. This sentiment was fueled by the July 2025 Consumer Price Index (CPI) report, which came in largely as expected, showing that inflation is moderating.

Lower interest rates are generally seen as a positive for the stock market for several reasons:

- **Cheaper Borrowing:** Lower rates make it less expensive for companies to borrow money for investments, expansion, and other business activities.
- **Higher Valuations:** When interest rates are low, future corporate earnings are discounted at a lower rate, which increases the present value of stocks and

supports higher valuations.

- **Encouraged Spending:** Lower rates make it more affordable for consumers to borrow for big-ticket purchases like homes and cars, which can stimulate economic growth and boost corporate profits.

The market's optimism is based on the expectation that the Fed will begin to lower rates, likely at its next meeting in September, which would provide a significant boost to the economy and asset prices.

Is "No News Good News" and "Risk On"?

Yes, your understanding is correct. This situation exemplifies both of these concepts in the financial markets:

- **"No News is Good News":** In the context of inflation, this phrase means that the data did not surprise to the upside. The market had been worried about a potential re-acceleration of inflation, which would have forced the Fed to keep rates higher for longer. Since the CPI report was in line with or slightly better than expectations, it removed a major source of uncertainty and fear. The absence of bad news (i.e., surprisingly high inflation) was, in itself, a positive signal.
- **"Risk On":** This term describes a market environment where investors have a high appetite for risk. When investors are confident about the economic outlook and believe the Fed will cut rates, they tend to sell "safe haven" assets like government bonds and move their money into riskier assets that have higher growth potential. This includes stocks, particularly in sectors like technology (which are heavily represented in the Nasdaq Composite) that benefit most from lower borrowing costs and a strong economy. The rally in both the S&P 500 and the Nasdaq Composite, along with a rise in smaller-cap stocks, indicates a clear "risk-on" sentiment.

Breakdown of the July 2025 CPI Data

The key takeaways from the July 2025 CPI report were:

- **Headline Inflation:** The year-over-year inflation rate for all items was **2.7%**, which was unchanged from June and slightly below the 2.8% economists had

expected. This was a crucial factor in reassuring the market that overall price increases are under control.

- **Core Inflation:** This measure, which excludes volatile food and energy prices, came in at **3.1%** year-over-year. While this was slightly higher than the previous month's reading, it was still within a range that the market found acceptable.
- **Month-over-Month:**
 - **Headline CPI:** Rose by **0.2%** from June, which was in line with expectations.
 - **Core CPI:** Rose by **0.3%** from June, also in line with expectations.

Overall, the report showed that inflation is continuing its path of moderation. While there were some areas of concern, such as a heating up of the core CPI, the overall picture was positive enough to increase the probability of a September rate cut, which was the main catalyst for the record-setting rally.

Hypothetically, try to predict NDX at the end of 2025

Predicting the future of any financial index, especially something as volatile as the Nasdaq 100 (NDX), is inherently difficult. Markets are influenced by a complex interplay of economic data, corporate earnings, geopolitical events, and investor sentiment. Therefore, any forecast is a hypothetical exercise based on current trends and potential future scenarios.

Based on the information available and the recent market dynamics, here is a hypothetical prediction for the NDX at the end of 2025:

The Bullish Scenario: Continued Momentum and Rate Cuts

This is the most likely scenario given the current market sentiment.

- **Assumptions:** The Federal Reserve follows through with a series of interest rate cuts, likely beginning in September and continuing through the end of the year. Inflation remains contained, and the economy avoids a recession. Corporate earnings, particularly from the "Magnificent Seven" tech stocks that dominate the NDX, continue to be strong, fueled by sustained investments in AI and cloud computing.

- **Potential Outcome:** Under this scenario, the NDX could see a significant rally into year-end. The current momentum, driven by the belief in a "soft landing," would be reinforced by actual rate cuts and positive earnings reports. Market analysts have already suggested potential targets for the NDX in the range of **24,000 to 25,000**. This would represent a healthy gain from current levels, solidifying 2025 as a strong year for tech stocks.

The Bearish Scenario: A "Wall of Worry" and Unforeseen Headwinds

This scenario considers the risks and potential pitfalls that could derail the current rally.

- **Assumptions:** The Fed's rate cuts are less aggressive than the market expects, or inflation data unexpectedly turns higher, forcing the Fed to pause or even reverse its course. Geopolitical tensions, such as ongoing trade disputes or conflicts, escalate and disrupt global supply chains. A major "Magnificent Seven" company delivers disappointing earnings, or the AI momentum fades as investors question the long-term utility and profitability of the technology.
- **Potential Outcome:** A significant market correction of at least **15% to 20%** could occur, bringing the NDX back down to the **20,000 to 21,000** range or even lower. This would be a typical "bubble-bursting" event, similar to what has happened in the past with other new technologies. A decline in AI momentum or a slowdown in corporate spending could be a major catalyst for this outcome.

Key Factors to Watch

The actual outcome will depend on several critical factors:

- **Federal Reserve Policy:** The pace and timing of interest rate cuts are paramount. Any unexpected hawkishness from the Fed could quickly sour market sentiment.
- **Corporate Earnings:** The performance of the largest companies in the NDX, particularly the "Magnificent Seven," will have a disproportionate impact on the index's direction. Their earnings reports on AI investments and profitability will be closely watched.

- **Geopolitical Events:** New tariffs, trade wars, or international conflicts could create significant uncertainty and trigger a "risk-off" environment, pushing investors away from growth stocks.
- **Inflation Data:** While the July CPI report was a positive sign, future inflation reports must continue to show moderation for the bullish scenario to hold.

In conclusion, while the current market climate favors a bullish trajectory for the NDX, a number of potential risks remain. The index could reach new highs by the end of 2025 if the economic environment remains favorable, but a significant correction is also a real possibility if key assumptions about the economy and corporate performance prove to be incorrect.

Hypothetically, try to predict FTEC at the end of 2025

Hypothetically predicting the future price of an ETF like the Fidelity MSCI Information Technology Index ETF (FTEC) is similar to predicting the broader market, as its performance is tied directly to its underlying holdings. FTEC, by design, tracks the performance of the information technology sector in the U.S. equity market, so its trajectory is heavily dependent on the performance of the tech giants that comprise the bulk of its portfolio.

Here is a hypothetical prediction for FTEC at the end of 2025, considering various scenarios.

The Bullish Scenario: Continued Tech Dominance

This is the most likely scenario, given the current market environment and the strong performance of the tech sector.

- **Assumptions:** The themes of AI, cloud computing, and digital transformation continue to drive significant revenue and earnings growth for the top holdings in FTEC, which include companies like Microsoft, Apple, NVIDIA, and Amazon. The Federal Reserve continues its path of interest rate cuts, which makes growth stocks like those in the tech sector more attractive. The U.S. economy avoids a recession, and consumer and business spending on technology remains robust.
- **Potential Outcome:** In this scenario, FTEC would likely see a strong performance, mirroring or even outperforming the broader market. It could

continue its upward trend, potentially reaching a price range of **\$250 to \$270** or even higher by the end of 2025. This would represent a substantial gain from its current price, driven by a combination of earnings growth and multiple expansion due to a favorable interest rate environment.

The Bearish Scenario: Overvaluation and Economic Slowdown

This scenario considers the risks of a potential market correction and a slowdown in the tech sector.

- **Assumptions:** The current rally is seen as a "bubble" fueled by hype around AI, and investors begin to question the long-term profitability of these investments. The Federal Reserve either holds rates steady or reverses course due to a resurgence of inflation, making borrowing more expensive and hurting corporate valuations. A recession, even a mild one, could lead to a significant slowdown in corporate spending on IT, directly impacting the earnings of FTEC's holdings.
- **Potential Outcome:** A significant correction could bring FTEC's price down. In a more severe downturn, the ETF could fall to the **\$180 to \$200** range. This would be a painful but not unprecedented event for a growth-oriented sector. The key drivers of this outcome would be a combination of a loss of investor confidence, disappointing earnings from key tech companies, and a less-than-favorable economic policy.

The Stagnation Scenario: A Trading Range

This scenario offers a middle ground, where the market is neither exuberantly bullish nor outright bearish.

- **Assumptions:** The positive tailwinds of rate cuts and AI are balanced by the headwinds of lingering inflation and geopolitical uncertainty. Corporate earnings growth moderates but doesn't collapse. The market enters a period of consolidation, where investors are unsure of the next big move.
- **Potential Outcome:** FTEC could trade within a relatively tight range for the remainder of 2025. It might fluctuate between a support level around **\$210** and a resistance level around **\$235**. This scenario would be characterized by high volatility within the range, as the market digests new economic data and corporate reports.

Key Factors to Watch

The actual performance of FTEC will depend on:

- **Federal Reserve Policy:** This is the most crucial factor. A dovish Fed will support FTEC, while a hawkish Fed will be a significant headwind.
- **Corporate Earnings:** The earnings reports of the largest companies in the ETF, such as Microsoft and NVIDIA, will be the most significant drivers. Any disappointment in their performance could send a shockwave through the entire tech sector.
- **AI Hype vs. Reality:** The market is currently betting heavily on the future of AI. If the financial returns from AI investments don't materialize as quickly as expected, it could lead to a re-evaluation of tech stock valuations.
- **Geopolitical Stability:** Any escalation of global conflicts or new trade barriers could disrupt supply chains and negatively impact the multinational tech companies in FTEC.